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BMD/96/AR

progress: a major breakthrough on our Athabasca property, land acquisition in Manitoba and the Yukon, encouraging exploration results in West Kalimantan and the completion of our equity financing, positioned the Company for exciting growth opportunities.

athabasca, alberta: fire assays have confirmed gold and platinum potential on our land; working with Geological Survey of Canada, we have developed the Prairie Gold model to explain the mineralizing process in this area.

dawson bay, manitoba: the Prairie Gold model led to the discovery of mineral occurrences similar to Athabasca in the Dawson Bay area of Manitoba and, as a result, we have obtained a Special Exploration Permit covering 530,000 hectares in this region.

swift river, yukon: is a high-quality opportunity for the development of a large-tonnage deposit of base metals. **west kalimantan, indonesia:** we expect to receive our first Contract of Work by the end of April 1997, and our exploration results are encouraging.

strong financial position: a private placement in 1996 resulted in net proceeds of \$9.2 million, bringing the total amount of funds we have raised since our founding to \$17.2 million in cash and land. Birch Mountain has no long-term debt.

MESSAGE TO THE SHAREHOLDERS

PROGRESS TOWARD OUR GOAL During the past year, Birch Mountain continued its progress by adhering to our mandate – to deliver maximum value to shareholders by concentrating on prospects capable of hosting large-tonnage deposits with high economic potential in strategic locations. Our progress toward this goal is the combined result of an exceptional board of directors, a highly motivated staff of professionals with impressive technical competence and some of the best consultants available in specific disciplines.

Birch Mountain is focused, well financed and has a portfolio of properties that includes large land positions in Alberta, Manitoba, the Yukon and Indonesia. The Company has cash and short-term deposits of more than \$5 million, which exceeds our exploration and operating budget for 1997.

MAJOR BREAKTHROUGH IN 1997 The primary focus of our exploration has been the Prairie Gold model. In April 1997, Birch Mountain achieved a major breakthrough in our Athabasca prospect and announced fire assay results of 4.94 and 2.21 grams per tonne of platinum and 0.21 and 0.19 grams per tonne of gold over 1.6 metres in limestone. These results validate the Prairie Gold mineralizing process for gold.

and precious metals. We believe the potential exists to discover large-tonnage deposits.

PRAIRIE GOLD MODEL In conjunction with the Geological Survey of Canada, Birch Mountain has developed the Prairie Gold model that explains the low temperature deposition of gold and precious metals in sedimentary rocks. There are five crucial elements that must be present for Prairie Gold mineralization (see figures 1 to 8) to occur – and all of these requirements are met in the Athabasca and Dawson Bay regions. » An aqueous brine solution capable of leaching and carrying gold and other precious metals » Permeable source rocks containing precious metals » A plumbing system to focus the discharge of the precious metal-bearing solutions » A suitable host rock and precipitation mechanism to remove precious metals and concentrate them in an economic deposit; and » Geological time to enable these processes to occur.

EXPLORATION AREA Recently, we have concluded that the Dawson Bay region of west-central Manitoba is another area where Prairie Gold mineralization occurs. Scanning electron microscope work on samples from this area has identified altered rock hosting gold grains in association with a wide variety of native metals. Birch Mountain has obtained a Special Exploration Permit from the Manitoba government covering 530,000 hectares in this region. We have entered into a co-operative agreement with the Geological Services Branch of Manitoba Energy and Mines to document the geochemical characteristics of the host rocks and the gold mineralization in the Dawson Bay area.

Over the next year, we will be exploring our two Prairie Gold properties, Athabasca and Dawson Bay, in an attempt to delineate drilling targets leading to commercial deposits of gold and precious metals.

PROSPECT IN THE YUKON As an extension of our exploration activities in northern British Columbia, Birch Mountain has an option to acquire a 100 percent interest in a 12,000 hectare property near Watson Lake in the southern Yukon. The Swift River property has the potential to contain a large-tonnage deposit of copper, zinc, silver and gold. Aerial magnetometer expression indicates that the volcanic-sedimentary unit contains several mineralized zones along a strike length of twenty kilometres. Preliminary sampling by Birch Mountain over separate

high-quality discover opportunity: In addition to our Prairie Gold prospects in Athabasca and Dawson Bay, our new Swift River property in the Yukon represents a high-quality discovery opportunity for us as well. We have an agreement to acquire a 100 percent interest in 500 claims that have the potential to contain large-tonnage deposits of copper, zinc, silver and gold. Initial exploration has been very encouraging, and drilling will start in mid-1997.

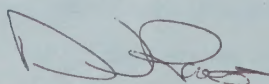
portions of a large outcrop returned values of 5.11 percent zinc over two metres, 4.71 percent zinc over seven metres and 2.28 percent copper plus 96 grams/tonne silver over one metre of thickness.

ENCOURAGING RESULTS IN INDONESIA Approval of our application for a Contract of Work covering 609,000 hectares in the Indonesian province of West Kalimantan is expected in April 1997. Regional exploration conducted under our permit has resulted in finding several very attractive gold prospects in the northeastern sector of the block. We have a team of exploration geologists delineating these primary targets, and we have identified five other high-priority areas for follow-up. We are encouraged by the early results of our exploration on this concession and are looking forward to expanding our understanding of the geology and mineralization in this area.

EXCELLENT STAFF AND DIRECTORS During the year, Edward Flood, President of Indochina Goldfields Ltd., joined the board of directors from his previous role as advisor. We are very fortunate to add Ed's considerable experience in international mining to our hard-working and dedicated board. On behalf of the shareholders, I thank the board members for their advice, counsel and time commitment to Birch Mountain.

We are very pleased that Dr. Hugh Abercrombie, formerly with the Geological Survey of Canada, has joined our staff. Hugh has been at the forefront of the conceptualization and development of the Prairie Gold model and will be a valuable addition to our staff in pursuing these deposits in Canada and, in time, worldwide.

AN EXCITING FUTURE We thank our shareholders for their support of Birch Mountain and are confident that our prospects hold exciting opportunities for enhancing shareholder value. Birch Mountain has a technical team that has earned the respect of major international mining companies and, with the direction of the board and assistance of staff and technical consultants, we expect to continue to make significant advances in the search for major new ore bodies.



Douglas J. Rowe,
President & CEO
April 9, 1997

finding large-tonnage deposits of gold and precious metals: with

the encouraging results of duplicate fire assays and our refinement of the Prairie Gold model, we have become even more convinced of the mineral potential of our Athabasca and Dawson Bay properties. The following figures explain the Prairie Gold model.

FIGURE 1

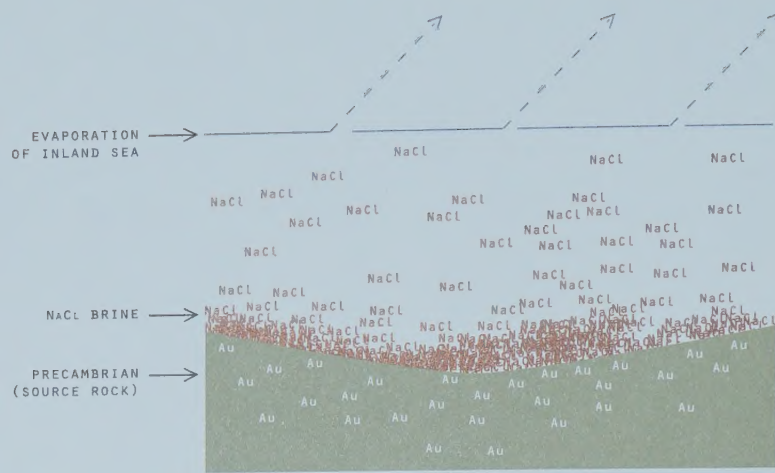


FIGURE 1 DEVONIAN: 375 MILLION YEARS BEFORE PRESENT (MYBP) Western North America was submerged by an inland sea for many millions of years. The water evaporated, leaving brine of concentrated salts (NaCl) that was heavier than sea water. This brine settled into the porous and fractured gold-bearing (Au) Precambrian rocks at the bottom of the basin. FIGURE 2: DEVONIAN 35 MYBP Over time, layers of shale and limestone were deposited, sealing the salt beds and the brine in the bottom of the basin. The brine began to dissolve the gold as a soluble chloride (AuCl_4), a process that

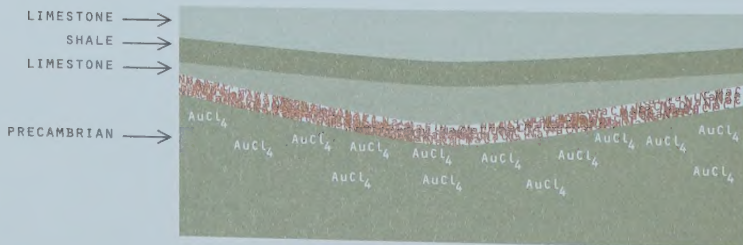


FIGURE 2

FIGURE 7

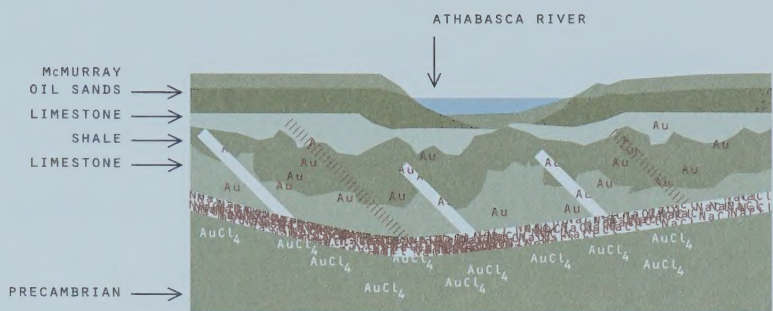


FIGURE 7: EARLY TERTIARY: 50 MYBP In a similar but later migration of fluids, enormous volumes of hydrocarbons flowed into the Athabasca area through the McMurray sands, creating a seal of tar that slowed the flow of brines. More recent erosion by glaciers and the Athabasca River ruptured the seal again by removing some oil sands near Fort McKay. Brine flow is now seen in areas such as Saline Lake, 15 kilometres south of Fort McKay. **FIGURE 8: TODAY** The metallic gold that precipitated in fractured limestones and shales in Athabasca is the Prairie Gold mineralization we have identified in drill core and surface samples.

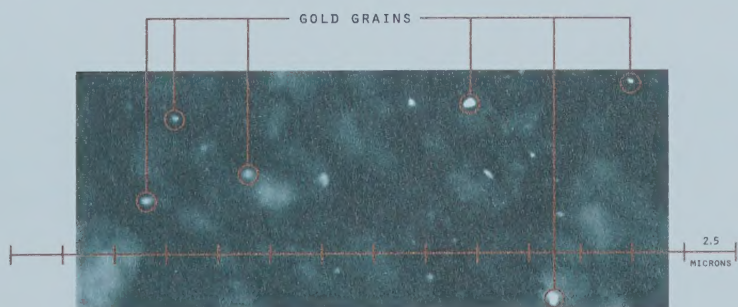
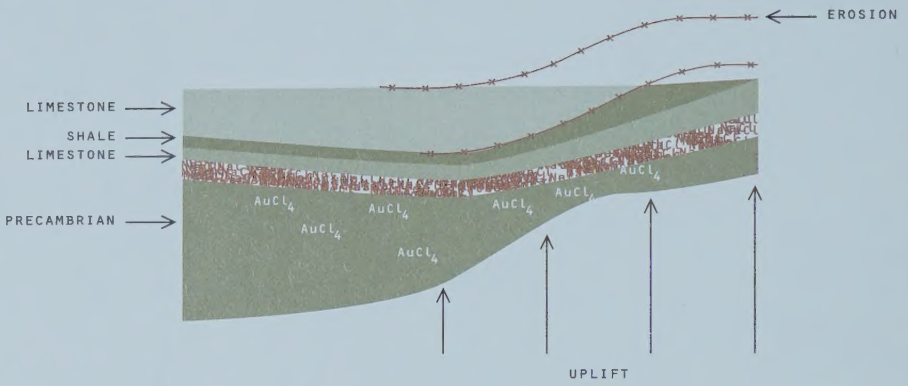


FIGURE 8

FIGURE 3

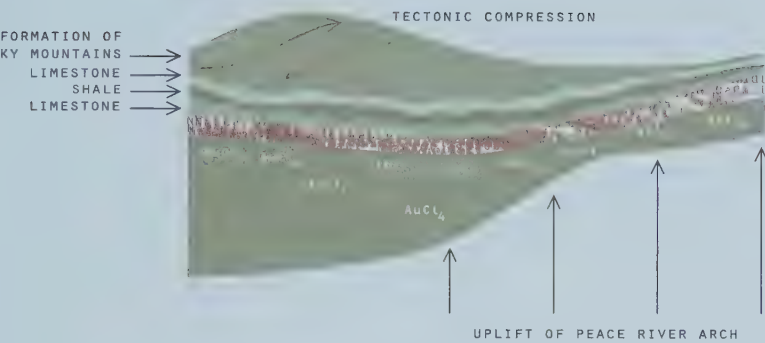


has continued for hundreds of millions of years and is still ongoing today. **FIGURE 3: EARLY CRETACEOUS: 130 MYBP** Much later, the Athabasca area of northeastern Alberta was uplifted, exposing the limestone and shale and resulting in their partial erosion. **FIGURE 4: CRETACEOUS: 110 MYBP** Open to the dissolving forces of fresh water from the surface, the salt beds could no longer support the overlying limestone and shale, which collapsed. At approximately the same time, the McMurray sands were deposited in the Athabasca region. **FIGURE 5: CRETACEOUS: 90 MYBP** With the mountain



FIGURE 4

FIGURE 5



ing episode that pushed up the Rocky Mountains and renewed uplift of the Peace River Arch, the seal on fossil brine was ruptured. As a result, the gold-bearing brine was forced eastward along the Peace River through to the Athabasca area. **FIGURE 6: LATE CRETACEOUS: 70 MYBP** At the edge of salt layer where the seal had been breached, the brine moved vertically through fractures and solution pipe structures. As the gold-bearing brine percolated up through the fractured and permeable shale and limestone, the gold chloride (AuCl_3) was reduced to metallic gold as it reacted with organic material or pyrite.



FIGURE 6

THE PALMANT FOCUS OF OUR EXPLORATION IS ON PRIBITIC GOLD IN THE
LYNNBANK REGION OF NORTHEASTERN ALBERTA WHERE WE CONTROL 120,000
HECTARES AND DAWSON 521, 000 HECTARES. AS THE PRIBITIC GOLD MODEL IS NEW, SHAREHOLDERS, MINING ANALYSTS AND OTHER
STAKEHOLDERS HAVE SPECIFIC QUESTIONS. IN THE NEXT FEW PAGES, OUR TEAM
PROVIDES ANSWERS TO THE QUESTIONS WE'RE MOST FREQUENTLY ASKED.

WHY DO YOU BELIEVE THERE IS GOLD IN NORTHEASTERN ALBERTA? "Scanning electron microscope and standard fire assay analyses have conclusively demonstrated the presence of anomalous quantities of gold and other precious and base metals in rocks in the Athabasca region of northeastern Alberta," says President Doug Rowe. "To explain the transport and deposition of gold and precious metals in Athabasca, Birch Mountain, together with the Geological Survey of Canada, developed the Prairie Gold model. With the fire assay results announced in April 1997, we have become increasingly confident in the area's commercial potential."

WHY ARE THE RECENT FIRE ASSAYS SO IMPORTANT? "For the past two years, Birch Mountain has been attempting to quantify the gold found by scanning electron microscope work on diamond-drill hole samples. The assay results announced April 3, 1997, are very important as they are clear evidence of anomalous gold," says Doug Halbe, Metallurgical Consultant. » "Platinum was a bit of a surprise," adds Bob Lipsert, General Manager. "Although we're certainly pleased that it's there given its value. The results – up to 4.94 grams of platinum and 0.21 grams of gold per tonne – are encouraging and represent a breakthrough in our ability to demonstrate the precious metal content of Athabasca limestone."

President Doug Rowe elaborates on the Company's recent news: "Our results are solid. We have three fire assays with similar results from Bondar Clegg and Activation Laboratories, two extremely reputable firms. They obtained the samples independently of Birch Mountain. We have been, and will continue to be, very cautious about releasing analytical results."

DO YOU THINK THE ATHABASCA REGION HAS ECONOMIC POTENTIAL? "Yes, unequivocally," according to Dr. Hugh Abercrombie, Manager, Exploration. "The conditions leading to the formation of the three trillion tonne Athabasca oil sands deposit also appear to control the flow of gold-bearing brines. Microdisseminated, sediment-hosted gold deposits, such as Carlin in Nevada, typically form over a few hundred thousand years to a million years. In contrast mineral deposition in northeastern Alberta occurred over a much longer period, perhaps tens to hundreds of millions of years. This, and other factors, lead us to conclude that there is tremendous potential for the existence of large-tonnage deposits in Alberta that could rival some of the largest gold deposits in the world."

WHERE AND HOW DO YOU EXPECT TO FIND AN ECONOMIC GOLD DEPOSIT? Dr. Jon Thomson, Exploration Advisor, responds, "In our exploration program, we are using geology, geophysics and geochemistry to correlate Prairie Gold mineralizing processes with the structural, stratigraphic, hydrogeological and geochemical elements that are essential to the formation of an ore deposit. The Prairie Gold model tells us that an ore deposit in Athabasca will be found in a large volume of fractured limestone containing gold, silver and other precious and base metals. Evidence from other sediment-hosted gold deposits further suggests that an ore deposit will be found where structural and stratigraphic conditions enabled brines to flow into areas that had the ability to capture metals."

WHAT ARE YOUR 1997 PLANS? "In 1997, we will focus on the Bitumont Basin, the site of drillhole 11-7-AE-9610," says Val Pratico, Chief Geologist. "In Phase I, in co-operation with Syncrude Canada Ltd, we will acquire and analyze 14 drill cores, including cores from two holes to the Precambrian basement. In Phase II, we intend to identify structural fairways where faulting and solution collapse have enabled saline, metal-enriched brines to move vertically into the overlying limestone. This will establish and prioritize targets for a winter drill program."

WHERE ELSE WOULD THE PRAIRIE GOLD MODEL APPLY? "The first area is Dawson Bay in Manitoba, where Birch Mountain has acquired a Special Exploration Permit covering 530,000 hectares. New occurrences of microdisseminated gold and poly-metallic minerals were discovered here in 1996 by the Geological Survey of Canada and Manitoba Energy and Mines," says Hugh Abercrombie. "We believe we can recognize and identify occurrences of this mineralization elsewhere in the Western Canada Sedimentary Basin and in other basins around the world that show geological, geochemical, structural and hydrogeological features similar to Athabasca and Dawson Bay." He also adds that "Birch Mountain has initiated a program to review and prioritize regions in Western Canada and beyond that have the potential to host other Prairie Gold deposits."

DO YOU HAVE THE FINANCIAL RESOURCES TO MEET YOUR OBJECTIVES? "Yes," replies Don Dabbs, Chief Financial Officer. "In 1996, we raised \$9.2 million in a private placement, and recently we announced the extension of the exercise date of the Company's outstanding warrants to October 11, 1997. We are working within a two-year operating budget, and we have a strategy to attract joint-venture partners to ensure we can fund our exploration programs in Western Canada and Indonesia."

AREAS OF EXPLORATION

ATHABASCA, ALBERTA » MAJOR BREAKTHROUGH IN 1997 Birch

Mountain made substantial progress in 1996 in understanding the Prairie Gold model as it applies to Athabasca.

On April 3, 1997, we released the results of repeat and confirmatory fire assays of gold- and platinum-enriched shaly limestone conducted by Bondar Clegg & Co. Ltd., of North Vancouver, British Columbia, and Activation Laboratories Ltd., of Ancaster, Ontario. The sample was taken over a 1.6 metre interval from 72.0 to 73.6 metres below surface in drill hole 11-7-AE-9610 in Township 96, Range 10W4. From duplicate analysis of the same core sample, Bondar Clegg reported 4.94 and 2.21 grams per tonne of platinum and 0.20 and 0.19 grams per tonne of gold, and Activation Laboratories reported values of 2.21 grams per tonne of platinum and 0.21 grams per tonne of gold.

Confirmation of gold and platinum by fire assay is a major breakthrough for Birch Mountain. Scanning electron microscope analysis by the Geological Survey of Canada, Birch Mountain and others has clearly demonstrated the presence of gold, silver, platinum and minor amounts of other metals from widely separated samples taken over an extensive portion of

our permit area. Integrating the results from the two reputable assay laboratories into the Prairie Gold model validates the mineralizing process for gold and precious metals.

In 1996, as the Prairie Gold model evolved into a predictive exploration tool, we reduced Birch Mountain's large land position in the Athabasca Valley to concentrate on core lands that we believe are the most prospective for economic mineralization. We have retained about 550,000 hectares in a wide band along the Athabasca and Clearwater rivers, and we continue to hold land in a related geological setting in the Birch and Caribou mountains to the northwest.

The Athabasca area is particularly well situated for mining as it has good access and a well-developed infrastructure because of the nearby oil sands plants. In addition, Birch Mountain benefits from the wealth of geological data available on the area, and the ability to participate in joint drilling programs with oil sands companies as we hold the Metallic and Industrial Mineral rights to ground underlying proposed new oil sands developments.

PRAIRIE GOLD MODEL The Prairie Gold model guides our search for a gold deposit in this area. It explains how gold and other metals were transported by low-temperature fluids in the Western Canada Sedimentary Basin and deposited in host rocks in Athabasca. There are five critical elements of the Prairie Gold model: a brine solution; source rocks; a plumbing system; a precipitation mechanism; and time. All elements of the Prairie Gold model are present in Athabasca.

The solution capable of carrying gold is an oxidized chloride-rich brine generated as the residual saline solution remaining after salt deposition during Early and Middle Devonian times. In addition, chloride-rich brine is generated when meteoric water enters from the surface, flows through the sedimentary rock and dissolves the deposits of salt.

The source rocks must contain some gold and precious metals and be sufficiently porous and permeable to allow the brine to circulate. In Athabasca, the source rocks are fractured Precambrian basement which extend along the eastern margin of the Western Canada Sedimentary Basin.

The plumbing system by which the metal-bearing solutions flow to the site of deposition is a combination of structural and stratigraphic fluid conduits including permeable aquifers, faults, fractures and solution collapse features. The structural history of the eastern part of the Peace River Arch is an integral part of the Prairie Gold model in Athabasca. Over geological time, structural adjustment of the Peace River Arch fractured the sedimentary rocks and provided conduits for transporting metal-bearing solutions vertically through the limestone.

The precipitation mechanism for removing gold and precious metals from solution is the reduction of the oxidized, chloride-rich brine by reaction with either sulphides or organic material. It takes time for these solutions to transport a sufficient quantity of gold. In northeastern Alberta, gold and precious metal transport and deposition has occurred for tens to hundreds of millions of years.

Applying the Prairie Gold model, we believe an ore body in Athabasca will be discovered in a large volume of fractured, altered limestone that contains gold and precious metals with minor amounts of copper, zinc and other metals. The location of such an ore body will be controlled by stratigraphic features and will reflect the distribution of permeable strata and the precipitation mechanisms, likely related to solution collapse features. The Bitumont Basin meets this description and will be the focus of our 1997 exploration program.

DAWSON BAY, MANITOBA Birch Mountain has been granted a Special Exploration Permit covering more than 530,000 hectares in the Dawson Bay/Swan River area of west-central Manitoba. In 1996, government geologists reported new occurrences of Prairie Gold mineralization in this area. Field work and scanning electron microscope analysis of samples from this area show that microdisseminated gold with a variety of native metals and alloys occurs in limestone and silicified limestone associated with solution chimneys and other features diagnostic of karst development.

Birch Mountain's 1997 exploration program in the Dawson Bay region will include analysis of geophysical data, field sampling

FIGURE A

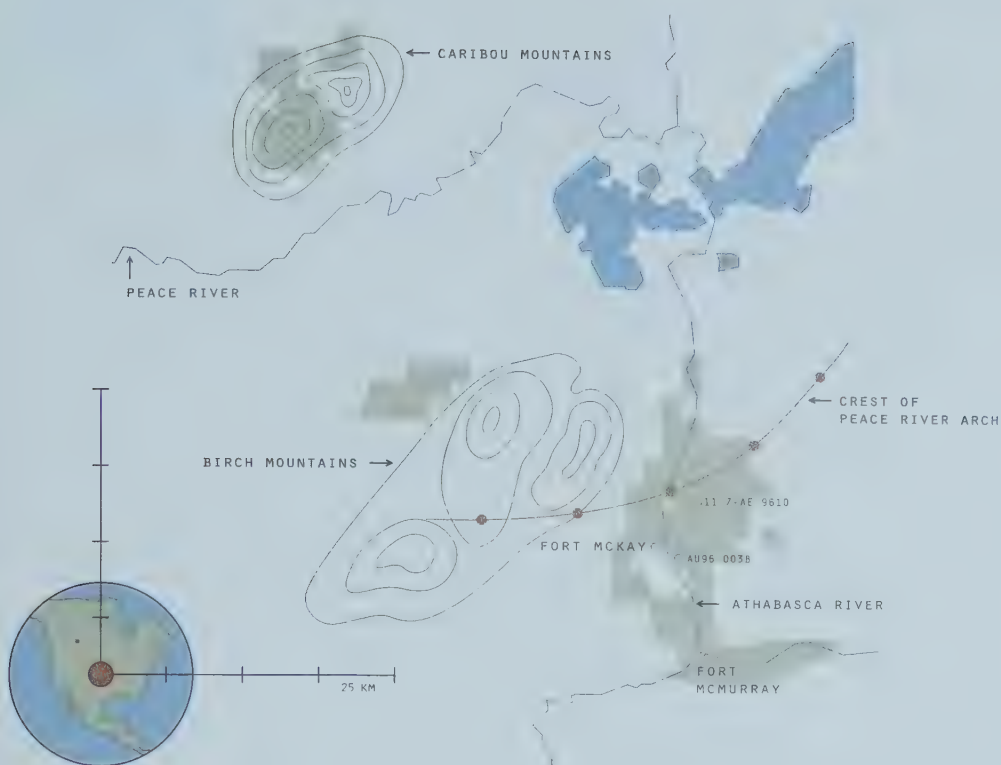


FIGURE A ATHABASCA, ALBERTA: In co-operation with Syncrude, 14 wells were drilled in the first months of 1997. » Geophysical surveys, geological mapping, field sampling and data compilation will be used to select drilling locations before the end of the year. Proposed Exploration Budget: \$725,000

FIGURE B DAWSON BAY, MANITOBA: Analyses of air photos and the compilation of regional geophysical and geological data were completed in the spring. » Through a co-operative project with the Manitoba Geological Services Branch, we will document the geological and geochemical characteristics of the host rocks and the contained gold mineralization. Proposed Exploration Budget: \$275,000

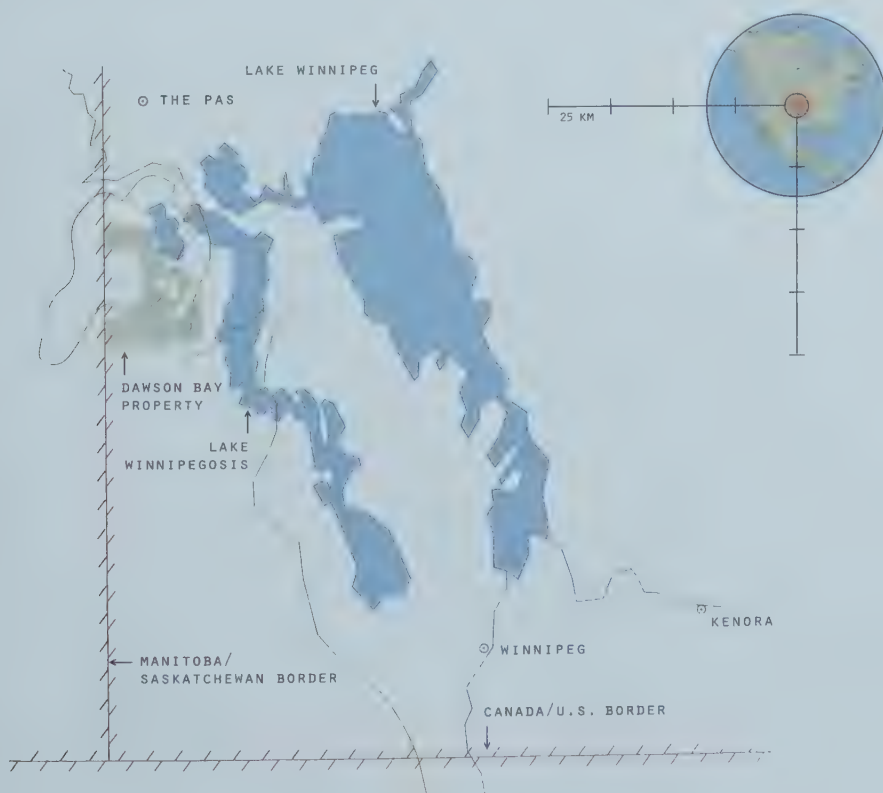


FIGURE B

FIGURE C

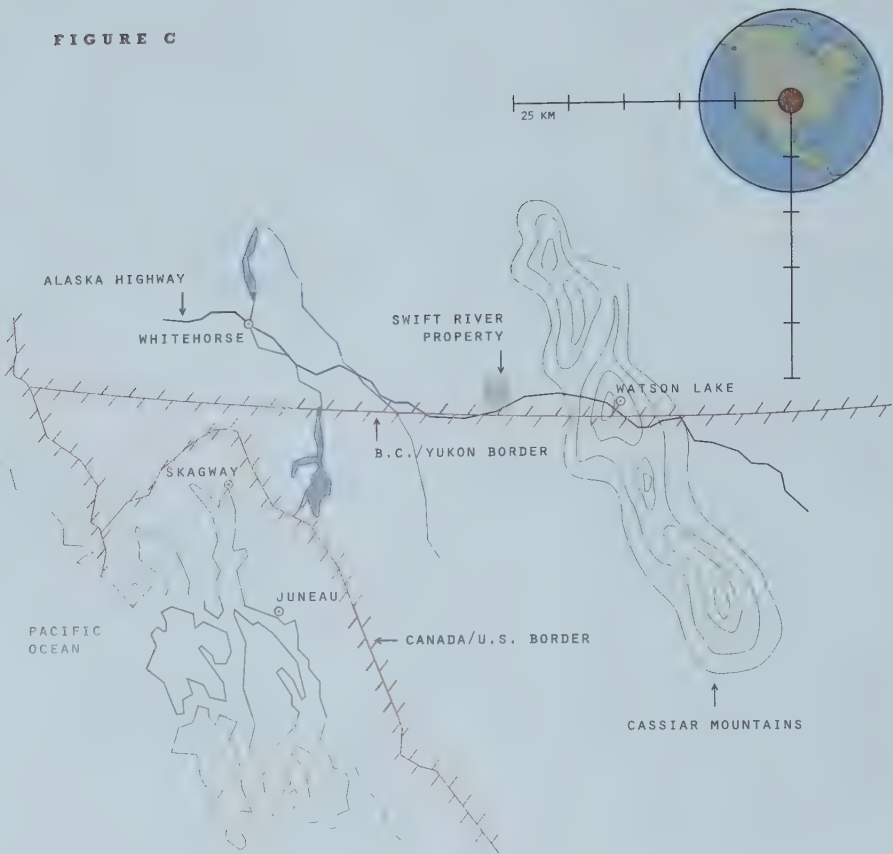


FIGURE C SWIFT RIVER, YUKON: Ground geophysical surveys began in early spring and will continue during the summer in conjunction with geological mapping, sampling, trenching and a drilling program. Proposed Exploration Budget: \$910,000

FIGURE D WEST KALIMANTAN, INDONESIA: We will focus on trenching and sampling anomalies found in 1996, putting a priority on the Kantuk Asam prospect in the northeastern corner of our property. » We plan to extend exploration to the additional land included in our new application for a CoW. Proposed Exploration Budget: \$856,000.



FIGURE D

and mapping. We have signed an agreement with the Manitoba Geological Services Branch, who, in collaboration with Birch Mountain, will study the geological and geochemical characteristics of both altered and unaltered limestone.

We are optimistic that our recent land acquisition in Dawson Bay expands the Prairie Gold model beyond Athabasca. Like Athabasca, Dawson Bay is underlain by a long-lived and periodically reactivated basement structure, the Churchill-Superior Boundary Zone. Nickel, copper, gold and silver deposits of the Thompson Nickel Belt occur within this tectonic zone, and previous work has demonstrated that saline brines discharging within the permit area are enriched with silver and base metals.

Birch Mountain has made substantial progress in developing the Prairie Gold model into a practical exploration tool. The key elements of the model serve as a guide in the search for gold and precious metal deposits elsewhere in the Western Canada Sedimentary Basin and, ultimately, around the world.

SWIFT RIVER, YUKON Birch Mountain has an option agreement with First Yukon Silver Resources Inc. to acquire a 100 percent interest in 500 claims covering the 12,000 hectare Swift River property in the southern Yukon. Located 130 kilometres west of Watson Lake, Swift River is situated in an area of gentle topography with little glacial till cover and a good network of roads for easy access to the Alaska Highway and the tide-water port of Skagway, Alaska.

Swift River is a high-quality opportunity for the development of a large-tonnage base and precious metal deposits.

The property is characterized by volcanic-sedimentary rocks of the Yukon-Tanana Terrane which hosts poorly outcropping, stratabound, finely laminated massive-sulphide mineralization. Aerial magnetometer expression indicates that the volcanic-sedimentary units contain several mineralized zones along a strike length of twenty kilometres. Individual zones measure up to six kilometres in strike length. The property has the potential to contain a large-tonnage deposit of copper, zinc, silver and gold.

Preliminary sampling by Birch Mountain over separate portions of a large outcrop returned values of 5.11 percent zinc over two metres, 4.71 percent zinc over seven metres and 2.28 percent copper plus 96 grams per tonne of silver over one metre of thickness. Exploration on the property began in March 1997 with a ground geophysical survey. A horizontal-loop electromagnetic survey identified a number of conductors, all consistent with stratigraphy. A conductor corresponding to the 2.28 percent copper showing measures two kilometres long, has an estimated 25 to 50 metre width and is open along strike.

WEST KALIMANTAN, INDONESIA Danfort Developments Ltd., a wholly owned subsidiary of Birch Mountain, expects to receive a Contract of Work (CoW) in Indonesia by the end of April 1997. This is a 6th Generation CoW which will encompass 609,000 hectares that we refer to as the Sintang prospect. Danfort holds a 90 percent interest in the joint venture company, PT. Danfort Development Indonesia, that will own the CoW.

In our 1996 exploration program, we concentrated on a regional evaluation of the Sintang prospect and the drainage basin of the south Ketungau river. On the basis of our preliminary results, we upgraded 5 of the 21 Sintang intrusives visible at surface to prospects. Danfort will conduct further work on all five prospects in 1997. Our first priority is the Kantuk Asam prospect with reported geochemical values of gold from float and chip samples ranging from 0.48 to 3.81 grams per tonne, and silver values of up to 40 grams per tonne. Based on these exploration results, Danfort has applied for a 7th Generation CoW over an adjacent 20,000 hectares of prospective ground covering the projected extension of these prospects on the northern edge of our property.

Danfort has contracted PT. Geotekindo Sabang Merauke to provide personnel and project management for the exploration program. They will focus on the five prospects with an exploration program that will include analysis of remote sensing data, geological sampling, surface trenching and analysis of sediments, soil and stream samples.

placement and, subsequent to year-end, the exercising of options to acquire 2.5 million common shares pursuant to the agreement with Mr. Robert Friedland, we are well positioned to fund our exploration programs.

financial results: with net proceeds of \$9.2 million from a 1996 private

OPTION TO MR. ROBERT FRIEDLAND On May 9, 1996, the definitive agreement and documents were signed completing the transaction set out in a preliminary agreement dated October 12, 1995, with Robert Friedland. Mr. Friedland received an option to purchase shares and share purchase warrants from some of the initial shareholders of Birch Mountain which, if fully exercised, would enable him to acquire seven million shares of the Company. In return, Birch Mountain acquired all of the shares of Danfort Development Ltd., a private company which held an 80 percent interest in a joint venture in the Republic of Indonesia, which in turn held an Application for Contract of Work in the province of West Kalimantan.

Mr. Friedland agreed to assist the Company in obtaining the financing needed from time to time to acquire and develop our assets. The private placement of \$9.2 million completed in April 1996 was facilitated by Mr. Friedland.

On January 28, 1997, pursuant to the agreement with Mr. Friedland, two companies acquired 11 percent of Birch Mountain by exercising warrants to acquire 2.5 million common shares. Under the same agreement, Mr. Friedland has

an option to acquire an additional 4.5 million shares on or before October 12, 1997.

During 1996, we acquired an additional 10 percent net interest in the Application for the CoW from an Indonesian company. This, together with the 80 percent Danfort originally held, combines to make up the 90 percent now held in the joint venture company.

FINANCING

Our private placement of 1,637,000 Special Warrants was announced on March 15, 1996, and closed on April 11, 1996, at a price of \$6.00 for each Special Warrant, with net proceeds to the Company of \$9,232,680. Each Special Warrant was convertible to one common share and one common share purchase warrant. Each warrant entitled the holder to acquire one common share at an exercise price of \$6.30 per share on or before October 11, 1996, (none were exercised), and thereafter and until April 11, 1997, at an exercise price of \$6.60. The exercise date was subsequently extended to October 11, 1997. A prospectus was cleared with the Alberta and British Columbia Securities Commissions on July 12, 1996, that qualified the common shares for trading on the Alberta Stock Exchange.

Since our founding in January 1995, the Company has been well financed to conduct our exploration business, having raised a total of \$17.2 million in cash and land through the issuance of treasury shares.

Birch Mountain has no long-term debt, nor do we plan to incur any until we begin developing one of the mineral projects.

HOLDING OFF-SHORE MINERAL INTERESTS

In consultation with professional advisors, we have modified the corporate structure. Danfort Developments Ltd., which has a 90 percent interest in the joint venture company that will hold the CoW, P.T. Danfort Developments Indonesia, is now wholly owned by Rockyview Developments Limited. In turn, Birch Mountain owns 100 percent of Rockyview Developments. Both Rockyview and Danfort are companies registered, and in good standing, in the British Virgin Islands.

CONSOLIDATION OF ATHABASCA LAND POSITION Birch Mountain

began exploration in northeastern Alberta with the acquisition of a large land position encompassing 4,400,000 hectares. Through our field work, research and increased understanding of the underlying principles controlling mineral deposition in the area, we have narrowed our focus to core lands along the Athabasca and Clearwater valleys. We have retained more than 550,000 hectares of the most prospective land. We hold the mineral rights to almost all of the land that is suitable for commercial open-pit oil sands mining, and are working with the holders of the oil sands leases to achieve maximum financial benefit to Birch Mountain by co-operating on programs such as exploration drilling.

Tintina Mines Limited and NSR Resources Inc. of Toronto hold a prospective block of approximately 26,000 hectares in the Fort McKay area, and on November 1, 1996, Birch Mountain completed an agreement with Tintina which grants us an option to acquire a 51 percent interest in this property for \$1 million. In addition, under the terms of this agreement Birch Mountain purchased 500,000 units of Tintina, each unit consisting of one common share and one common share purchase warrant.

BRITISH COLUMBIA PROPERTIES The primary activity in 1996 was on

the Eagle property with geological mapping, ground geophysical surveys and diamond drilling. Results of the electromagnetic survey indicated a number of conductors coincident with a two mile zone of outcrops containing copper-gold mineralization and hydrothermal alteration. The results of the 1996 exploration program did not meet our expectations for a large-tonnage deposit. Birch Mountain has found an opportunity to assign our interest in Eagle for additional land that meets our criteria for Prairie Gold mineralization. The Tas and Jumbo properties have been returned to the prospectors as they did not fit our criteria for large-tonnage deposits.

SAFETY, HEALTH + ENVIRONMENTAL MANAGEMENT Birch Mountain

is very cognizant of our responsibility for sound management practices that address the safety, health and environmental

aspects of our business, in particular our field exploration activities. The board of directors has adopted a formal policy that commits the Company, through training and monitoring, to conduct its operations in a manner that ensures the safety and health of the people involved, and protection of the environment through compliance with all environmental legislation. The policy has been distributed to all employees and consultants, and the board receives regular reports on the company's performance on these matters. The company is in full compliance with all laws and regulations in the jurisdictions where we operate.

LIQUIDITY

At December 31, 1996, our working capital was \$4,964,494. In January 1997, the Series A Warrants granted at the time of the merger between Birch Mountain Minerals Ltd. and Birch Mountain Resources Ltd. were exercised, adding \$756,938 to our working capital. If the common share purchase warrants issued with the private placement financing of April 1996 are exercised prior to expiring in October, an additional \$10 million will be available to continue and expand Birch Mountain's exploration program.

CAPITAL PROGRAMS

The Company spent a total of \$3,512,334 on exploration in 1996 on our mineral permits in the Athabasca region of northern Alberta, the Sintang prospect in West Kalimantan and properties in northern British Columbia, plus \$1,644,329 on land acquisition. Our proposed exploration budget for 1997 includes \$725,000 in Athabasca, \$275,000 for other Prairie Gold exploration in Manitoba, \$856,000 for West Kalimantan, and \$910,000 on our Swift River prospect in the southern Yukon.

GENERAL + ADMINISTRATIVE EXPENSES

In 1996, general and administrative expenses more than doubled over the previous year to \$1,102,000, a reflection of the significant expansion in our exploration programs and new prospects in Canada, plus a much larger program in Indonesia. The 1997 budget maintains this level of expenditure.

AUDITORS' REPORT We have audited the consolidated balance sheets of Birch Mountain Resources Ltd. as at December 31, 1996, and 1995 and the consolidated statements of loss and deficit and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. » We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. » In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996, and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Calgary, Alberta
February 14, 1997


Chartered Accountants

MANAGEMENT'S REPORT The accompanying financial statements and all information in the annual report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies outlined in the notes to the financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not completed at the date of the balance sheet. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with the financial statements. » Management maintains systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements. » Barr Shelley Stuart, Chartered Accountants, appointed by the shareholders, have examined the financial statements and have provided an independent professional opinion. Their audit was conducted in accordance with generally accepted audit standards in Canada. » The audit committee has reviewed these statements with management and the auditors and has reported to the board of directors. The board has approved the financial statements.



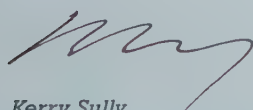
Donald L. Dabbs

Vice President, CFO and Corporate Secretary

BIRCH MOUNTAIN RESOURCES LTD.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

	1996	1995
		(note 14)
ASSETS		
Current		
Cash and term deposits	\$ 4,833,736	1,529,332
Accounts receivable	274,739	50,828
Investment tax credits	—	46,956
Prepays and deposits	142,376	3,899
	5,250,851	1,631,015
Investment (note 5)	648,514	—
Capital (note 6)	168,755	87,466
Mineral exploration costs (note 7)	6,333,545	2,043,495
	\$12,401,665	3,761,976
LIABILITIES		
Current		
Accounts payable	\$ 286,357	58,471
Contingency (note 15)		
SHAREHOLDERS' EQUITY		
Capital stock (note 8)	14,943,406	4,590,940
Deficit	(2,828,098)	(887,435)
	12,115,308	3,703,505
	\$12,401,665	3,761,976

Approved on behalf of the board:



Kerry Sully

Director



Russ Edwards

Director

BIRCH MOUNTAIN RESOURCES LTD.

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31

	1996	1995
		(note 14)
Expenses		
Shareholder services and promotion	\$ 390,497	70,527
Salaries, management fees and benefits	379,990	218,838
Office	196,642	60,672
Legal and audit	78,863	32,594
Amortization	56,409	29,370
Loss before the following	(1,102,401)	(412,001)
Interest and other income	225,993	21,068
Research costs	(177,642)	(159,682)
Writedown of mineral exploration costs	(886,613)	(64,861)
	(838,262)	(203,475)
Net loss for the year	(1,940,663)	(615,476)
Deficit at beginning of year	(887,435)	(271,959)
Deficit at end of year	\$ (2,828,098)	(887,435)
Loss per share (note 9)	\$ (0.10)	(0.04)

BIRCH MOUNTAIN RESOURCES LTD.

CONSOLIDATED STATEMENTS OF CASH FLOW

FOR THE YEARS ENDED DECEMBER 31

	1996	1995
Cash provided by (used in):		(note 14)
OPERATING ACTIVITIES		
Net loss for the year	\$ (1,940,663)	(615,476)
Add items not involving a current cash outlay		
Amortization	56,409	29,370
Writedown of mineral exploration costs	886,613	64,861
	(997,641)	(521,245)
Changes in working capital balances related to operating activities	(87,546)	33,322
	(1,085,187)	(487,923)
FINANCING ACTIVITIES		
Issuance of common shares for cash	9,966,157	2,495,060
Issuance of common shares for mineral permits	1,085,000	1,348,200
Deferred income taxes on renouncement of expenditures on flow through shares	-	(750,000)
Share issuance costs	(698,691)	(102,576)
	10,352,466	2,990,684
INVESTING ACTIVITIES		
Increase in investments	(648,514)	-
Purchase of capital assets	(137,698)	(34,062)
Mineral exploration expenditures, net of deferred income taxes of \$Nil (1995-\$750,000)	(5,176,663)	(1,312,143)
	(5,962,875)	(1,346,205)
Increase in cash	3,304,404	1,156,556
Cash at beginning of year	1,529,332	372,776
Cash at end of year	\$ 4,833,736	1,529,332

BIRCH MOUNTAIN RESOURCES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1996, AND 1995

1 NATURE OF OPERATIONS AND GOING CONCERN CONSIDERATIONS

Birch Mountain Resources Ltd. is in the process of exploring its mineral properties and has not yet determined whether the properties contain economically recoverable reserves. The Company's ability to continue as a going concern is largely dependent on the recovery of the amounts shown as mineral exploration costs, which in turn, are dependent on the existence of economically recoverable reserves, confirmation of the Company's interest in the underlying mining claims, the ability of Birch Mountain to obtain necessary financing to complete the development, and future profitable production. It is not possible to predict whether financing efforts will be successful, or if the Company will attain profitable levels of operation.

2 BASIS OF CONSOLIDATION

These financial statements include the operations of the Company and its wholly owned subsidiaries.

3 MAJOR TRANSACTION

The Company was classified as a Junior Capital Pool Corporation ("JCP") as defined in Alberta Securities Commission Policy 4.11. Effective July 4, 1995, as its Major Transaction it acquired all of the issued and outstanding shares and warrants of Birch Mountain Minerals Ltd. ("BMML"), a private mineral exploration company. Immediately after December 31, 1995, BMML was amalgamated with the Company.

4 SIGNIFICANT ACCOUNTING POLICIES

A) MINERAL EXPLORATION COSTS

The mineral properties are recorded at cost. Cost includes cash consideration and the market value of shares issued, if any. All direct and indirect acquisition and exploration expenditures are deferred until the properties to which they relate are placed into production, sold, allowed to lapse, or abandoned. These costs will be amortized over the estimated useful lives of the properties following the commencement of production, or written off if the properties are subsequently sold, allowed to lapse, or abandoned.

The Company assesses the recoverability of these deferred expenditures annually and, based on estimates, adjusts the carrying amount accordingly for any impairment in value. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Properties acquired under option or joint venture agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

BIRCH MOUNTAIN RESOURCES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1996, AND 1995

B) RESEARCH AND DEVELOPMENT

The Company is actively engaged in researching new technology applications. Costs associated with such projects are expensed in the period they are incurred.

C) CAPITAL ASSETS

Capital assets are recorded at cost. Amortization is recorded at the following annual rates:

Computer software	- 100% declining balance
Computer hardware	- 30% declining balance
Automotive	- 30% declining balance
Equipment	- 20% to 30% declining balance
Leasehold improvements	- 20% straight line

Amortization is charged at one-half of the annual rate in the year of acquisition of an asset.

D) DEFERRED INCOME TAXES

The Company follows the tax allocation basis in accounting for income taxes. Income tax legislation permits the flow through to shareholders of income tax deductions relating to certain qualified mining expenditures. This gives rise to deferred taxes which are deducted from the carrying cost of the mineral exploration costs and the proceeds of capital stock when the expenditures are renounced.

5 INVESTMENT

The investment is carried at cost and represents the Company's investment in 500,000 units of Tintina Mines Limited. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase an additional common share for \$1.50 per share, exercisable until November 1, 1997.

6 CAPITAL ASSETS

		1996	1995
	Cost	Accumulated Amortization	Net Book Value
Equipment	\$ 127,590	30,637	96,953
Computer	87,552	40,879	46,673
Automotive	34,090	10,227	23,863
Leasehold improvements	1,583	317	1,266
	\$ 250,815	82,060	168,755

BIRCH MOUNTAIN RESOURCES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1996, AND 1995

7 MINERAL EXPLORATION COSTS

	Balance Dec. 31 1995	Additions During The Year	Write-down During The Year	Balance Dec. 31 1996
Alberta	\$2,639,881	2,550,861	219,396	4,971,346
British Columbia	148,367	893,435	667,217	374,585
Yukon	—	250,242	—	250,242
Indonesia	5,247	1,482,125	—	1,487,372
Deferred tax effect of flow through				
share renouncement	(750,000)	—	—	(750,000)
	\$2,043,495	5,176,663	886,613	6,333,545

Included in mineral exploration costs are properties having a book value of approximately \$1,950,000 which have no cost base for tax purposes.

A) ALBERTA

The Company holds mining interests in the Athabasca region in Northern Alberta.

During the year, the Company acquired additional permits through its purchase of RMS Masonry Systems Inc. ("RMS") and acquired an option in specific lands of another company, Tintina Mines Limited ("Tintina"). Through its investment in Tintina, the Company can earn a 51% interest in certain lands with the payment of either \$700,000 by May 1, 1997, or \$1,000,000 by November 1, 1997.

The purchase of RMS from a shareholder of the Company involved a cash payment of \$563,000 and the issuance of 100,000 common shares. The company was eventually wound-up, and the cost of the purchase was allocated to the permits and included in mineral exploration costs.

B) BRITISH COLUMBIA

The balance of the British Columbia mineral exploration costs pertain to the Eagle properties.

C) THE YUKON

During the year, the Company acquired an option to purchase a 100% interest in the Swift River Property in the Yukon. In addition to the shares and cash paid during the year, in order to exercise the option, the Company is to conduct an exploration program of at least \$500,000 over the next three years and make cash payments to the optionee as follows:

1997	\$ 50,000
1998	100,000
1999	300,000
2000	500,000

BIRCH MOUNTAIN RESOURCES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1996, AND 1995

D) INDONESIA

Through its subsidiaries, the Company has a 90% interest in a joint venture engaged in exploration in the province of West Kalimantan in the Republic of Indonesia. Included in the mineral exploration costs are acquisition costs, expenses associated with a Seriousness bond and work application fees of approximately \$570,000. Receipt of approval from the Government of Indonesia of a Contract of Work carries an existing commitment for the payment of US\$100,000 and the issuance of 250,000 common shares of the Company to various parties involved in the application process.

8 CAPITAL STOCK

The Company is incorporated under the jurisdiction of the Alberta Business Corporations Act.

A) AUTHORIZED CAPITAL

Unlimited number of common voting shares

Unlimited number of preferred shares issuable in series

Unlimited number of non voting shares

B) ISSUED

Common shares	Number	Amount
Balance December 31, 1994	2,100,000	\$ 1,600,256
Issued for cash		
Initial public offering	2,000,000	200,000
Stock options exercised	360,000	40,900
Private placements	1,217,000	2,254,160
Issued in conjunction with major transaction	11,682,086	1,348,200
Share issuance costs	-	(102,576)
Deferred income tax relating to costs renounced	-	(750,000)
Balance December 31, 1995	17,359,086	4,590,940
Issued for cash		
Series B warrants exercised	168,209	126,157
Stock options exercised	180,000	18,000
Private placement special warrants	1,676,000	9,822,000
Issued for mineral permits	200,000	1,085,000
	19,583,295	15,642,097
Share issuance costs	-	(698,691)
Balance at December 31, 1996	19,583,295	\$14,943,406

BIRCH MOUNTAIN RESOURCES LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 1996, AND 1995****C) PREFERRED SHARES**

An unlimited number of preferred shares may be issued in one or more series, and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges and conditions attached to the shares of each series.

D) RESERVED FOR ISSUE

The Company has a stock option plan under which the Board of Directors can grant options to purchase common shares to senior employees, consultants and directors.

i) The Company has granted options of which 1,845,000 common shares remain outstanding as follows:

To	Date	Price Per Share	Number of Shares	Expiration Date
Officers and directors	Nov/1994	\$0.10	70,000	Nov/1999
Officers and directors	July/1995	0.76	150,000	July/2000
Employees and consultants	July/1995	0.59	175,000	July/2000
Directors	July/1995	0.38	400,000	July/2000
Officers and directors	Sept/1995	1.06	600,000	Sept/2000
Director	Jan/1996	3.85	100,000	Jan/2001
Director and consultant	Jan/1996	4.45	200,000	Jan/2001
Employees	Nov/1996	2.75	150,000	Nov/2001

ii) The Company has reserved 4,199,128 common shares with respect to the following outstanding warrants:

Series	Date	Price Per Share	Number of Warrants	Expiration Date
Series A	July 4/95	2 warrants + \$0.30	5,046,255	Jan 30/97
Special	July 12/96	1 warrant + \$6.60	1,676,000	April 11/97

Subsequent to December 31, 1996, all of the outstanding Series A warrants were exercised.

E) ESCROWED SHARES

Under the requirements of the Alberta Securities Commission and the Alberta Stock Exchange, 2,100,000 common shares issued for the JCP, 10,113,540 common shares issued in connection with the Company's major transaction, and 269,500 common shares issued or obtained in connection with the initial public offering and in secondary markets were held in escrow.

The Company's first anniversary of completion of its major transaction was July 1996. Accordingly, one-third of the shares previously held in escrow were released leaving the escrow amount at 8,322,030 common shares as at December 31, 1996.

BIRCH MOUNTAIN RESOURCES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1996, AND 1995

9 LOSS PER COMMON SHARE

The net loss per common share was calculated using the weighted average number of common shares outstanding of 18,492,000 shares (1995 – 16,081,503 shares). The effect of the warrants and stock options on the loss per share is anti-dilutive.

10 CONTINUING OBLIGATIONS

The Company rents premises under leases requiring annual rental payments for each of the next five years as follows:

1997	\$ 154,434
1998	146,184
1999	166,217
2000	166,217
2001	166,217

11 RELATED PARTY TRANSACTIONS

During the year, the Company had the following transactions with related parties:

- Paid for airborne surveying services of \$154,500 (1995 – \$108,000) to a company controlled by a director;
- Paid management fees aggregating \$18,000 (1995 – \$64,000) to a director and to a company controlled by a director;
- Paid consulting fees aggregating \$55,272 (1995 – \$Nil) to a company controlled by a director;
- Paid \$61,100 (1995 – \$10,500) for services related to corporate communication consulting to a company controlled by the spouse of a director; and
- Included in accounts payable is an amount of \$9,596 (1995 – \$Nil) owing to a company controlled by an officer.

BIRCH MOUNTAIN RESOURCES LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1996, AND 1995

12 INCOME TAXES

At December 31, 1996, the Company had approximately \$4,500,000 of tax deductions available to be applied against future years' income for income tax purposes. These deductions consist of Canadian mining exploration costs and undepreciated capital cost allowance, all of which are available for carryforward indefinitely.

The Company also has non-capital losses available to be carried forward and applied against future income for income tax purposes as follows:

To 2001	\$ 176,000
2002	387,000
2003	306,000
	<hr/>
	\$ 869,000

The Company has non-refundable investment tax credits available in the amount of \$31,000 to be carried forward against future income taxes payable to 2005.

The Company also has research and development costs available in the amount of \$267,000 to be carried forward against future income for income tax purposes, indefinitely.

The potential benefits relating to all of the above items have not been recorded in the financial statements.

13 SEGMENTED INFORMATION

The Company's principal business segment is the acquisition, exploration and development of mineral properties. All of the Company's properties are in the exploration stage. The Company's current activities are focused in Western Canada and Indonesia, as detailed in Note 7.

14 COMPARATIVE FIGURES

Certain of the 1995 comparative figures have been reclassified to conform with the current year's presentation.

15 CONTINGENCY

The Company has been named as defendant in a \$17,000,000 claim regarding improper termination of a letter agreement involving certain mining concessions. Management is of the opinion that this claim is without substantial merit, and no provision has been made for it in the financial statements.

CORPORATE INFORMATION

COMMON SHARE HIGHLIGHTS	Dec. 31 '96	March 30 '97
Common shares issued and outstanding	19,583,295	22,116,422
Outstanding stock options to management and directors	1,910,000	2,035,000
Common shares via outstanding warrants	4,199,127	1,676,000
Fully diluted common shares	23,148,295	25,827,422
Escrowed common shares	5,322,030	0,322,030
Market float (estimate)	11,261,265	13,794,392
Undiluted	19,583,295	22,116,422
Fully diluted	23,094,295	25,827,422

For more information on common shares, escrowed shares and stock options, please refer to Note 8 in the Notes to the Financial Statements.

HEAD OFFICE

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CONTACT

Douglas Rowe, President and CEO
 or Jane Quinn, Shareholder Services
 e-mail: jquinn@birchmountain.com
<http://www.birchmountain.com>

REGISTRAR AND TRANSFER AGENT

Montreal Trust

BANKERS

Alberta Treasury Branches
 Hongkong Bank of Canada

AUDITORS

Barr Shelley Stuart

SOLICITORS

Ogilvie and Company
 Mackimmie Matthews

BIRCH MOUNTAIN

CAPITALIZATION AND SHARE DISTRIBUTION

DECEMBER 31, 1996

Symbol	BMD
Stock Exchange	Alberta
Shares outstanding	19,583,295 million
Fully diluted shares	23,169,295 million
52-week High	\$8.00
52-week Low	\$1.75
Market Capitalization	\$50.1 million

CONVERSION

Acres to hectares	Multiply by 0.405
Hectares to acres	Multiply by 2.47
A ton to a tonne	Multiply by 0.907
A tonne to a ton	Multiply by 1.1
Troy ounces to grams	Multiply by 31.1
Grams to Troy ounces	Multiply by 0.032
Metres to feet	Multiply by 3.28
Kilometres to miles	Multiply by 0.62

DIRECTORS

RICHARD H. T. GARNETT,
Ph.D.

*Chairman of the Board,
Independent Mining Consultant,
Calgary, Alberta*

Co-founder of Birch Mountain Resources, Richard has more than 35 years of experience in mineral exploration and mining. He has held senior management positions with the Anglo American group of companies, Hudson Bay Mining and Smelting, Rio Tinto Zinc and several other large mining companies, and served on the Board of Diamond Fields Resources.

DOUGLAS J. ROWE,
P.Eng

*President and CEO,
Calgary, Alberta*

Co-founder of Birch Mountain Resources, Doug has been President and Chairman of the Board, Brougham Geoquest Ltd., since 1984 and has developed innovative exploration technology for oil, gas and minerals.

DONALD L. DABBS,
M.Sc., P.Ag.

*VP, CFO & Corporate Secretary,
Calgary, Alberta*

Co-founder of Birch Mountain Resources, Don has more than 25 years of consulting experience in environmental management and regulatory applications to provincial and federal governments. Prior to joining Birch Mountain, he consulted to major resource developments in Western and Northern Canada, including those in the Athabasca oil sands.

RUSSELL S. EDWARDS,
CA

*President of Edwards Oil Co.,
Calgary, Alberta*

Co-founder of Birch Mountain Resources, Russ served as President and CEO of Aaron Oil Corporation, an oil and gas exploration company, from 1987 to 1993.

R. EDWARD FLOOD,
M.Sc.

*President & CEO of Indochina
Goldfields Ltd.,
Reno, Nevada*

Ed has more than 25 years of mining industry experience. As Manager of Project Evaluation for NERCO Minerals, he assessed operating mines and mining properties in more than 30 countries. With Robertson Stephens & Company, Ed was a research analyst covering the gold industry, and he co-managed the Contrarian Fund.

MYRON A. GOLDSTEIN,
Ph.D.

*COO of DiamondWorks Ltd.,
Denver, Colorado*

With more than 25 years of acquisition, exploration and development experience in precious and base metals, Myron has held many senior positions in several international mining companies, including Coeur D'Alene Mines and Lac Minerals. He has worldwide mining experience in North and South America, Africa and Asia.

LANNY MCDONALD,
H.H. of F.

*VP of Corporate Development,
Calgary Flames Hockey Club,
Calgary, Alberta*

In 1990, after more than 16 years of National Hockey League play, Lanny joined the Calgary Flames as Vice President.

KERRY E. SULLY,
P.Eng.

*Independent Business Developer,
Calgary, Alberta*

Former President, Chief Executive Officer and Director of Ranchmen's Resources Ltd., Kerry has more than 25 years of oil and gas experience. He was also Vice President of Corporate Development for Total Energol, a gold mining company in British Columbia.

DIRECTORS

GORDON L. TOLL,

M.Sc. B.Eng.

*COO of Indochina Goldfields Ltd.,
Singapore*

Gordon has more than 25 years of experience in mining engineering and operations. He has held senior management positions with BHP Iron Ore, Texasgulf Inc., Anaconda Mineral-ARCO Coal, RTZ Limited and U.S. Borax. Gordon's international management experience includes working in Indonesia.

ADVISOR

ROBERT M. FRIEDLAND,

B.A.

Singapore

Robert Friedland is the founder of Ivanhoe Capital Corporation and the creator and financier of numerous public and private companies. He has been engaged in the acquisition, exploration and development of precious and strategic metals properties throughout the world since 1979.

STAFF

HUGH J. ABERCROMBIE,

Ph.D.

Manager of Exploration

Hugh joined Birch Mountain in 1997. He was previously employed with the Geological Survey of Canada, where he spent the last four years researching the migration and deposition of gold and precious metals in sedimentary basins, which led to the development of the Prairie Gold model. Hugh has more than 20 years of experience in the fields of geology, geochemistry and hydrology and is a member of the Canadian Society of Petroleum Geologists and the Geochemical Society.

SHANE P. GAMBLE,

B.A.Sc.

Operations Technologist

Shane researches and develops assay techniques and gold-extraction processes and analyses geophysical and geological data. Shane has degrees in Mining and Mineral Processing and Chemistry, a Technology Diploma in Industrial Engineering and industry experience in analytical chemistry and organometallic catalysts.

WILLIAM (BILL)

R. HEMSTOCK,

B.Sc.

Senior Technician

Bill has 14 years of mineral exploration experience in managing airborne, waterborne and ground-based geophysical projects. In addition, he spent five years in project management of forest inventory and preparation of environmental impact statements.

BRETT G. JOHNSON,

B.Sc.

Exploration Geologist

Brett joined Birch Mountain after graduating from the University of North Dakota with a degree in Environmental Geology in 1996. He has been a part of the Swift River, Tas and Eagle projects. Brett is a Member in Training for the Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGGA).

STAFF

L. ROBERT (BOB) LIPSETT,

P.Eng.

General Manager, Operations

Bob has more than 25 years of experience in project management for resource industries in Canada and in numerous countries throughout the world. Prior to joining Birch Mountain in 1995, Bob was the General Manager for an oil-well servicing and joint-venture oil company in Russia. He is a member of the Society of Metallurgical Engineers, Society of Petroleum Engineers and APEGGA.

R. GLEN MOMBOURQUETTE

Mineral Engineering Technologist

Glen brings a wide range of experience to Birch Mountain, having worked for the Geological Survey of Canada, Falconbridge Ltd., Natural Resources Canada and SGS Canada Ltd. This experience included developing and implementing new mineral processing techniques, sampling and computer modeling of sediment core, geochemical analysis and underground monitoring.

VALMAR (VAL) V. PRATICO,

B.Sc.

Chief Geologist

A graduate of the University of British Columbia with a B. Sc. in Geology, Val has more than 20 years of experience in project management, exploration and production operation in western North America. He is president of the Calgary Mineral Exploration Group Society, a volunteer organization that hosts the annual Calgary Mining Forum.

JANE E. QUINN

Investor Relations

Jane has been with Birch Mountain since its inception as a private company in 1994. Her background of business experience includes computer operations, office management and administration for a number of oil and gas, mapping and land companies. Jane is a member of the Prospectors and Developers Association of Canada and the Canadian Institute of Investor Relations.

TECHNICAL ADVISORS

DOUG HALBE,

P.E.

Doug is an international consultant in gold ore processing. He is an Adjunct Professor at the University of Utah, a fellow of the Australian Institute of Mining and Metallurgy, a member of the American Institute of Mining Engineers and the Mining and Metallurgical Society of America.

JON THORSON,

Ph.D.

Explorations Advisor

Jon has more than 30 years of exploration experience in minerals and oil and gas, and specializes in sedimentary basin analysis. He is a member of the Society of Economic Geology, Geologic Society of America and the Northwest Mining Association.

GLOSSARY

ALTERATION: A change in the chemical or mineral composition of a rock as a result of a mineralizing process.

ANOMALY: A value, or the location of a value, that is unusual compared to other values in the same or similar data sets.

AQUIFER: A zone of permeable rock through which water flows.

BASE METALS: Oxidizable metals of relatively lower value such as copper, lead and zinc; typically occur as a sulphide or oxide in mineral deposits.

BITUMONT BASIN: A depression in the surface of Devonian rocks in the Bitumont area of northern Alberta that developed in response to faulting of Precambrian basement and solution collapse related to removal of salt by dissolution of the underlying Prairie Formation..

BRECCIA: A rock consisting of angular broken fragments set in a finely grained matrix.

BRINE: Highly saline water containing more than 50 grams per litre of dissolved solids.

CHURCHILL-SUPERIOR BOUNDARY ZONE (CSBZ): A tectonic zone marking the boundary between the Churchill and Superior provinces of the Canadian Shield. This tectonic boundary zone is exposed at the surface in northeastern Manitoba, but to the west it is buried beneath rocks of the Western Canada Sedimentary Basin.

CONDUCTOR: A body of rock that is more electrically conductive than surrounding rock due to the presence of metallic minerals or other conducting materials.

CONTRACT OF WORK (COW): A legal instrument to facilitate foreign participation in mineral exploitation and development in the Republic of Indonesia.

CRETACEOUS: A geological time period that occurred between 66 and 135 million years before present (MYBP).

CYANIDE LEACH: A process for extracting gold from rock by dissolving the gold in an oxygenated cyanide-rich solution. Gold is usually removed from the cyanide solution by contact with activated carbon.

DEVONIAN: A geological time period that occurred from 345 to 405 MYBP.

FAULT: A surface along which one body of rock has moved relative to another.

FIRE ASSAY: A high-temperature process that involves using suitable fluxes to separate, in the molten state, the desired metals from other components of rock and thereby determine the mass of the desired metal.

FLOTATION CONCENTRATION: A process for mineral separation involving the aggregation of air bubbles and mineral particles in water and their subsequent rising to the surface for collection.

FORMATION: A distinctive body of rock that is given a name to distinguish it from other rocks on a geological map.

FRACTURE: A surface along which a rock has broken.

HYDROGEOLOGY: The description of the flow of water and other fluids through permeable rocks.

IGNEOUS: A rock formed from a molten state.

INTRUSIVE: A type of igneous rock that has solidified within the earth's crust.

KARST: A type of weathered limestone terrain that is formed by the dissolving action of surface waters on the limestone leading to the formation of caverns and solution collapse features.

MICRODISSEMINATED: Finely dispersed mineral or metallic grains that are less than about 50 microns in size. A micron is one one-millionth of a metre.

MINERAL DEPOSITION: The process by which minerals form within rock.

MINERALIZED: Refers to rock that has had minerals form within it.

PEACE RIVER ARCH: A large-scale structure that trends from southwest to northeast across north-central Alberta. The geological history of the Peace River Arch is complex, and it has been both an arch and a depression since Precambrian time.

PERMEABLE: A body of rock through which fluids can flow.

PRAIRIE GOLD: A type of microdisseminated, sediment-hosted gold and precious metal deposit.

PRECAMBRIAN: The earliest geological era, occurring prior to 600 MYBP.

PRECIPITATION: A process by which minerals form by crystallization from a liquid, usually water.

PRECIOUS METALS: An unoxidizable metal of relatively higher value, including gold, silver and the platinum group elements which are platinum, palladium, rhodium, ruthenium, iridium and osmium.

PYRITE: A mineral composed of iron disulphide.

REDUCTION REACTION: A reaction involving transfer of electrons from a more reduced substance to a less reduced (more oxidized) substance.

SILICIFIED: Description of an altered rock that has been partly or totally replaced by quartz or another form of silica.

SINTANG: A town in West Kalimantan, Indonesia, whose name has been attached to a group of igneous intrusive rocks.

SOLUTION CHIMNEY: A tube-like sub-vertical cavity that is formed by the dissolving actions of surface or sub-surface waters.

SOLUTION COLLAPSE: The process by which an overlying rock unit collapses down into an open cavern where rocks have been removed by the dissolving actions of surface or sub-surface waters.

STRATIGRAPHY: The description of layered sedimentary rocks of different ages and types and their correlations from place to place.

STRUCTURE: The description of the overall geometry of a rock body, mainly pertaining to its deformation by fracturing, faulting or folding.

TERTIARY: One of the latest geological periods, occurring from 1.2 to 66 MYBP.

TRENCHING: Excavation of a trench to expose an outcrop buried under glacial or other sediments.

WESTERN CANADA SEDIMENTARY BASIN (WCSB): A body of sedimentary rocks of Late Precambrian through Tertiary age that were laid down on Precambrian metamorphic and igneous rocks of the Canadian Shield across much of western Manitoba, southern and central Saskatchewan, Alberta and northeastern British Columbia.

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